**OLR Bill Analysis**
**sHB 5583**

***AN ACT CONCERNING THE PAYMENT OF REAL PROPERTY TAXES BY CERTAIN INSTITUTIONS OF HIGHER LEARNING AND HOSPITAL FACILITIES.***


## SUMMARY:

This bill revamps how the state treats nonprofit college and hospital property for property tax purposes and reimburses towns for part of the lost revenue from tax-exempt college and hospital property.

The bill subjects private nonprofit colleges and hospitals to real property taxes over a five-year phase-in period, from the 2014 through 2018 assessment years. It also allows such institutions to enter into agreements with their host municipalities for the payment of real property taxes and exempts those that do so from the bill's phase-in schedule.

With certain exceptions, the bill over time eliminates the state payment in lieu of taxes (PILOT) program that reimburses municipalities for a portion of the taxes that would have been paid on tax-exempt college and hospital property and replaces it with a new state grant program that reimburses private colleges and hospitals for a portion of the taxes they pay to their host municipalities.

The bill also redirects the part of the Mashantucket Pequot and Mohegan Fund currently allocated to municipalities receiving college and hospital PILOTs to the colleges and hospitals eligible for property tax reimbursement grants.

EFFECTIVE DATE: October 1, 2014, and applicable to assessment years starting on and after that date.


## PROPERTY TAXES ON COLLEGE AND HOSPITAL REAL PROPERTY

Beginning with the 2014 assessment year, the bill eliminates the property tax exemption for real property owned by nonprofit colleges, universities, and hospitals (see COMMENT) and phases-in their tax liability over a five-year period. With certain exceptions, it increases their tax liability by 20% per year, from the 2014 through 2018 assessment years, until such property is fully taxed.

The bill allows colleges and hospitals to enter into agreements with their host municipalities for the payment of real property taxes and exempts the institutions that do so from paying property taxes according to the bill's schedule. Under the bill, a municipality is any (1) town, city, borough, consolidated town and city, or consolidated town and borough and (2) village, fire, sewer, or combination fire and sewer district or other municipal organization authorized to levy and collect taxes.

The bill applies to the nonprofit institutions currently covered under the state's college and hospital PILOT program:

1. general and chronic disease hospitals and certain urgent care facilities ("hospital facilities") and

2. education institutions that offer, or accept transfer of, college-level credit and are either licensed or accredited by the Office of Higher Education to offer degrees, or are independent colleges or universities ("private nonprofit institutions of higher learning").

By law, independent colleges or universities are nonprofit institutions established in Connecticut that (1) have degree-granting authority and their home campuses here, (2) are not part of the state public higher education system, and (3) do not have the primary function of preparing students for a religious vocation.

## STATE REIMBURSEMENT FOR COLLEGES AND HOSPITALS

Under current law, the state provides PILOTs to municipalities to reimburse them for 77% of the taxes that would have been paid on tax-exempt real property owned by private colleges and hospitals. The

PILOTs are proportionately reduced if the appropriation for them is less than their full cost. With certain exceptions, the bill eliminates the college and hospital PILOT program and replaces it with a state grant program to reimburse these institutions for the property taxes they must pay under the bill.

### *Grant Amounts*

The grant payments, which begin in FY 16 (for taxes paid on the 2014 assessment year), are generally equal to 77% of the property taxes the institutions paid. But in any year in which an institution pays less than 77% of the property taxes on its real property (i.e., during the first three years of the phase-in period), the grant is equal to the amount the institution actually paid. The institution's host municipality receives any amount (up to 77%) that exceeds this reduced grant amount as a grant in lieu of taxes. Thus, in the program's first year, the institution would pay 20% of the taxes and the grant to the municipality would cover the additional 57%.

Institutions that have entered into agreements with their host municipalities for the payment of real property taxes may also receive a state grant reimbursing them for the property taxes they paid pursuant to the agreement, but only if the amount specified in the agreement exceeds the grant amount they would have otherwise received (generally 77% of real property taxes).

As with the PILOTs under current law, the bill requires the grants to institutions and municipalities to be proportionately reduced in any year in which the state appropriation for the grant is not sufficient to pay the full amount of such grants.

### *Procedure for Claiming and Paying Grants*

The bill establishes a procedure institutions must follow to claim a grant payment that parallels the current process towns must follow to claim a PILOT.

Each August 1, the institutions must submit to OPM the (1) assessed value of their real property subject to property taxes and (2) amount of property taxes paid for the current assessment year. Those that fail to do so forfeit $250 to the state, but may ask the secretary to waive the penalty according to procedures and standards he adopts in regulations.

The secretary must determine the grant amount due to each institution by September 1 and certify the amount to the comptroller. The comptroller must order payment within five business days after September 15 and the treasurer must make the payment by September 30.

The bill does not specify a process municipalities must follow in order to claim a grant in lieu of taxes under the program.

## PILOTS FOR SPECIFIED COLLEGES AND HOSPITALS

The bill retains the following annual PILOTs for municipalities that host specific colleges and hospitals:

1. 100% PILOT for U.S. Department of Veterans Affairs Connecticut Healthcare Systems campuses (Newington and West Haven),

2. $100,000 PILOT to Branford for Connecticut Hospice, and

3. $1 million PILOT to New London for the U.S. Coast Guard Academy.

## MASHANTUCKET PEQUOT AND MOHEGAN FUND DISTRIBUTION

Current law annually allocates $20,123,916 of the Mashantucket Pequot and Mohegan Fund to municipalities according to the distribution formula for college and hospital PILOTs. The bill redirects these funds to colleges and hospitals eligible for property tax reimbursement grants. The grant, when added to the institution's property tax reimbursement grant, cannot exceed 100% of the property taxes the institution paid.

In any year in which a college or hospital is liable for less than 100% of real property taxes, any funds remaining after making the property tax reimbursement grants are proportionately paid to the institution's host municipality as a grant in lieu of taxes.

## COMMENT

### *Conflict Between Statutory and Special Act Property Tax Exemptions for Certain Colleges and Universities*

The bill eliminates the statutory tax exemption for certain educational institutions, but does not repeal parallel tax exemptions in their special act charters.

Although most colleges and universities are exempt from property taxes under the state's general tax exemption for nonprofit educational property (CGS § 12-81(7)), seven institutions are exempt under a separate statutory provision (CGS § 12-81(8)). They are: Connecticut College for Women; Hartford Seminary Foundation; Trinity College; Wesleyan University; Yale College; and Berkeley Divinity School and Sheffield Scientific School, which are part of Yale. With the exception of the Hartford Seminary Foundation, these institutions' special act charters contain provisions that parallel the statutory tax exemption. In addition, Yale's charter is confirmed in the state constitution (Article Eighth, § 3).

## BACKGROUND

### *Related Bill*

sSB 467, favorably reported by the Finance, Revenue and Bonding Committee, restructures the statutory formulas for the college and hospital and state-owned property PILOT programs.

## COMMITTEE ACTION

Planning and Development Committee

Joint Favorable Substitute
Yea 14 Nay 5 (03/25/2014)